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SUBJECT: UGANDA: AGOA EXPORTS DECLINING

¶1. Summary: After peaking in 2004, AGOA exports from Uganda to the U.S. have steadily declined. Despite strong government and private sector investment in apparel, fish, and cut flowers, these exports have not made significant penetration into the U.S. market. Meanwhile, overall Ugandan exports to the U.S. have remained stagnant for the last five years. Companies exporting under AGOA have been hampered by domestic and regional challenges, limiting their competitiveness in the U.S. market. The Government of Uganda (GOU) remains optimistic about AGOA, but would like to see the program made permanent. AGOA will only work in Uganda when the country is able to overcome the infrastructure and other challenges that render its products uncompetitive before they even leave the continent for export. End Summary.

AGOA Exports Declining, General Exports Remain Stagnant

¶2. In 2008, total AGOA exports from Uganda added up to an unimpressive amount of just over $1 million. This represents the second lowest value of exports under AGOA since the GOU became eligible for the program in 2001. It follows four straight years of declining AGOA exports from a peak of $5.1 million in 2004. During this same time period, total annual exports to the U.S. have remained stagnant in the mid-$20 million range. Coffee is Uganda's biggest export to the U.S., earning $10 million in 2008. It is not AGOA eligible, but currently enters the U.S. duty free and quota free.

The Apparel Story: A Flawed Plan

¶3. Apparel exports, the primary focus of the GOU's AGOA strategy, failed to gain traction under AGOA. T-shirts made up the largest value under AGOA in 2008, representing $400,000 in exports to the U.S. However, this was less than half of the total from the year before. In 2005, Uganda exported $4.1 million worth of men's and boy's suits. By 2008, no men's or boy's suits were exported. Tri-Star Apparel, the primary exporter of these suits, has since gone bankrupt. Phenix Logistics still exports organic cotton shirts and undergarments to the U.S., but has seen exports decline and has lost over $3 million in the last three years. Both of these ventures have resulted in significant losses to the GOU, which had invested heavily in the enterprises.

¶4. Several internal and external factors contributed to the failure of these apparel and textile ventures. First, the two major firms, Tri-Star and Phenix, were financially and logistically propped up by the government. Government-backed loans provided both companies with their start-up capital, and the GOU provided facilities and training for Tri-Star and its personnel. Despite this support, Tri-Star was never able to make a profit as its business model required the importation of textiles to produce the finished product. High transportation costs resulting from poor infrastructure in and around the port of Mombasa, Kenya, coupled with poor business management, made this venture unprofitable.

¶5. While Tri-Star relied on imported fabric, Phenix has built its

business around locally produced organic cotton. However, the high cost of imported organic dyes and bleaches, coupled with transportation and supply disruptions, led to setbacks in both production and export. The latter was a direct result of Kenya's post-election violence in 2008. Further, territorial and contractual disputes between the two main distributors of organic cotton in Uganda (Dunavant, an American company and BoWeevil, a Dutch company) resulted in higher cotton prices for Phenix. Yuichi Kashiwadda, Managing Director of Phenix Logistics, informed Econoff that these disruptions are "directly responsible" for the drop in organic cotton exports to the U.S. Phenix began exports of organic cotton products to the U.S. in 2007 with $1.1 million in exports. In 2008, that number dropped to $235,000, and 2009 exports will remain at this low level.

More Industries, More Struggles

¶6. Other industries have faced similar problems in taking advantage of AGOA. Exports of fish (tilapia and Nile perch) rose between 2004 and 2006. However, this trend proved unsustainable, as it was based on overfishing in Lake Victoria. Further, representatives from two major fish exporters, Greenfield (U) and Byansi Fisheries Ltd. informed Econoff that the benefits of AGOA did not compensate for the extra freight costs of exporting to the U.S. as opposed to their more traditional markets in Europe and East Africa. Byansi Fisheries also complained about stricter packaging requirements in the U.S. versus those in Europe, further increasing their costs. Total fish exports to the U.S. (mostly non-AGOA) reached around $7 million in 2004. By 2008, this number dropped to around $1.6 million. Flowers and plants have had increasing success, recording

a high of around $280,000 in exports to the U.S. under AGOA in 2008. However, this total volume remains small (Note: flowers and plants were the second largest AGOA export in 2008).

Government Perspective

¶7. In spite of these difficulties, the Government of Uganda remains optimistic about AGOA. President Yoweri Museveni refers to AGOA as the "first friendship act of the West towards Africa." However, this optimism has been tempered by some realities facing Uganda. Susan Muhwezi, Special Assistant to the President for AGOA, informed EconOff that Uganda's geographical location and land-locked status create roadblocks to increased exports to the U.S. As Uganda is only served by the port of Mombasa, Kenya, exporting out of the East Africa region is consistently difficult. Muhwezi also cited the global financial crisis as having a strong negative impact on exports to the United States. When asked about potential improvements to AGOA, Muhwezi informed EconOff that "making AGOA permanent would help attract long-term investment in key industries in Uganda."

Comment

¶8. Although AGOA served as a useful tool for generating goodwill in Uganda towards the United States when it first rolled out, the fact of the matter is that it has not had a significant economic impact, and what impact it did have is diminishing. Indeed, the recent demise of the apparel sector, which was linked to AGOA by the GOU, has in some ways given the program a bad name among the Ugandan public. The good news is that Uganda's overall trade has grown in recent years thanks to increases in regional trade and exports to Europe. But any discussion about the future of AGOA in Uganda will need to take Uganda's indigenous limitations, namely in infrastructure and transportation, into account.
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